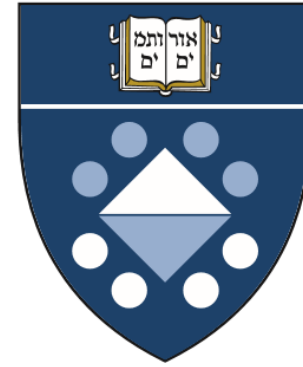




**YALE  
SOM**  
*Finance Club*

# Technical Session #3: Enterprise / Equity Value

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September 22, 2019



**Yale** SCHOOL OF MANAGEMENT  
*Student Organizations*

# Agenda

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- I. Warm-up: macro and market news
- II. Where should I be in the 400 questions?
- III. Enterprise / Equity Value basics
- IV. Practice questions
- V. Questions to focus on ahead of mock mock madness / early coffee chats
- VI. Q&A



# Where should I be in the 400 questions?

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# Enterprise Value

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$$\text{EV} = \text{MV Equity} + \text{Debt} + \text{Non-Controlling Interest} - \text{Cash}$$

- Non-Controlling Interest
- MV vs. BV of Debt and Equity
  - What does BV of debt look like?
- Calculating MV of equity: FDSO
- Enterprise value vs. Equity Value multiples
  - EV/EBITDA, EV/EBIT, EV/Revenue, EV/Subscribers, EV/Cash flow?

[https://s2.q4cdn.com/181345880/files/doc\\_financials/quarterly\\_results/2019/q2/Delta-Air-Lines-2Q19-10-Q.pdf](https://s2.q4cdn.com/181345880/files/doc_financials/quarterly_results/2019/q2/Delta-Air-Lines-2Q19-10-Q.pdf)



## Practice questions

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Why do you add back Non-controlling Interest to Enterprise Value?



## Practice questions (cont'd)

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Why do you subtract Cash from Enterprise Value?



## Practice questions (cont'd)

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What's the difference between Market Value vs. Book Value of Equity?

Can a company have negative Book Value? How about negative Market Value?



## Practice questions (cont'd)

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Let's say a company has 100 shares outstanding, at a share price of \$10 each. It also has 10 options outstanding at an exercise price of \$5 each – what is its fully diluted equity value?



## Practice questions (cont'd)

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Could a company have a negative Enterprise Value? What would that mean?



## Practice questions (cont'd)

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What happens to Enterprise Value when a company pays dividend?



# Technical questions to focus on ahead of mock mock madness / early coffee chats

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- 1) Talk me through the 3 financial statements? How do they link?
- 2) Walk me through the statements when Depreciation increases by \$10?
- 3) What is Enterprise Value?
- 4) Walk me through a DCF?
- 5) What are the 3 valuation methodologies?
- 6) Why acquire a firm?
- 7) ...



# Q&A

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# Appendix: Treasury Stock Method Calculation

## x Treasury Stock Method

|                     |      |
|---------------------|------|
| Shares Outstanding  | 100  |
| Current Price       | \$10 |
| Options outstanding | 10   |
| Strike Price        | \$5  |

| Steps                |            |                                                                                                  |
|----------------------|------------|--------------------------------------------------------------------------------------------------|
| In-the-money?        | Yes        | If Strike Price < Current Price => Yes                                                           |
| Add' Shares Create   | 10         | If options are in the money, then # of shares created = # of options outstanding                 |
| New # of Shares      | 110        | New # of Shares = current shares outstanding + additional shares created from exercising options |
| Proceeds             | 50         | Proceeds (\$ company receives) = Strike price x Options outstanding                              |
| Shares Buyback       | 5          | # of shares buyback = Proceeds / Current Price                                                   |
| <b>Final Share #</b> | <b>105</b> | <b>Final Share # = New # of Shares - Shares Buyback</b>                                          |



# Appendix: Non-controlling interest

## x Non-controlling Interest: Acquisition & Equity Method

% Acquired

80%

Cash Paid

8,000.0

|                         | <u>Pre-acquisition</u> |          | <u>Post-acquisition</u> |          |
|-------------------------|------------------------|----------|-------------------------|----------|
|                         | Acquirer               | Target   | Acquisition             | Equity   |
| <u>Income Statement</u> |                        |          |                         |          |
| Revenue                 | \$60,000               | \$20,000 | \$80,000                | \$60,000 |
| Expense                 | 40,000                 | 10,000   | 50,000                  | 40,000   |
| Op Income               | \$20,000               | \$10,000 | \$30,000                | \$20,000 |
| Equity income target    |                        |          |                         | 8,000    |
| Minority interest       |                        |          | (2,000)                 |          |
| Net income              | \$20,000               | \$10,000 | \$28,000                | \$28,000 |

Acquisition method: >51%

Equity method: 20% - 50%

